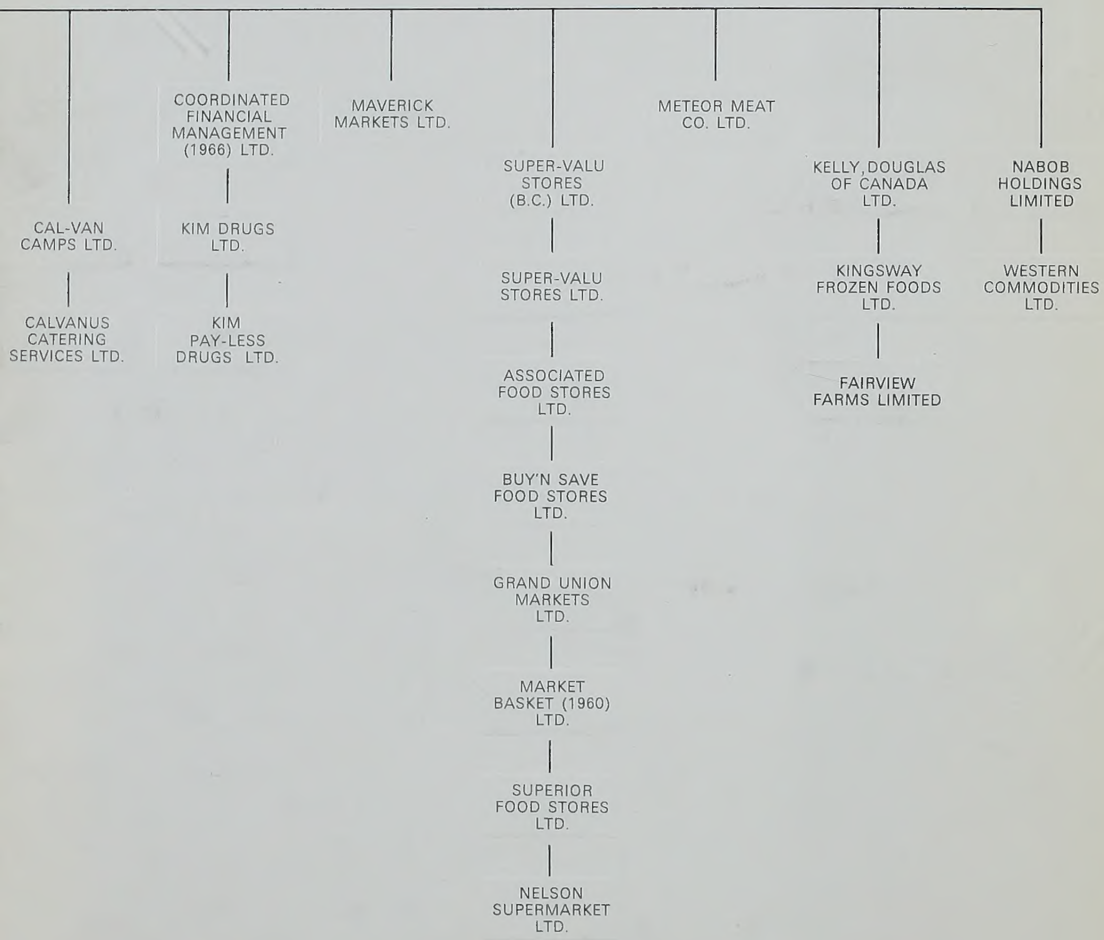
KELLY, DOUGLAS & COMPANY, LIMITED
1969 ANNUAL REPORT

- NABOB FOODS LIMITED
- CLOVERDALE PAINT & CHEMICALS LTD.
  - MIRALITE MANUFACTURING LTD.
  - CLOVERDALE LABORATORIES LTD.
  - MONARCH PAINTS LIMITED
- DICKSON IMPORTING CO. LIMITED
  - TUXEDO FOODS LTD.
  - ORIENT TEA CO. LTD.
  - TRADE ROASTING COMPANY LIMITED
- FOREMOST FOODS LIMITED
- CANADA NUT COMPANY LIMITED
  - CANADA NUT COMPANY (1951) LIMITED
  - KADANA FOODS LIMITED
  - MURRAY JAM LIMITED
  - REGAL FRUIT PRODUCTS LIMITED
  - SQUIRREL BRAND PRODUCTS LIMITED
  - SUSSEX MANUFACTURING LTD.
- CAL-VAN CATERERS LTD.
  - CAL-VAN FOODS LTD.
  - CAL-VAN CAFETERIAS LTD.
  - CAL-VAN INSTALLATIONS LTD.
  - DRIFTWOOD CAFE LTD.
  - THOMPSON DEVELOPMENTS LTD.
  - INTER-CITY COFFEE CARS LTD.
  - LAKE CITY GARAGE LTD.
  - INTER-CITY LEASING CORPORATION LTD.
- CANUS CAMP SERVICES LTD.


CAL-VAN CAMPS LTD.
CALVANUS CATERING SERVICES LTD.
COORDINATED FINANCIAL MANAGEMENT (1966) LTD.
KIM DRUGS LTD.
KIM PAY-LESS DRUGS LTD.
MAVERICK MARKETS LTD.
SUPER-VALU STORES (B.C.) LTD.
SUPER-VALU STORES LTD.
ASSOCIATED FOOD STORES LTD.
BUY'N SAVE FOOD STORES LTD.
GRAND UNION MARKETS LTD.
MARKET BASKET (1960) LTD.
SUPERIOR FOOD STORES LTD.
NELSON SUPERMARKET LTD.
METEOR MEAT CO. LTD.
KELLY, DOUGLAS OF CANADA LTD.
KINGSWAY FROZEN FOODS LTD.
FAIRVIEW FARMS LIMITED
NABOB HOLDINGS LIMITED
WESTERN COMMODITIES LTD.

Kelly, Douglas & Company, Limited
1969 Annual Report

Officers

F. B. BROWN, Chairman
V. F. MacLEAN, President and Chief Executive Officer
J. BAIRD, Senior Vice-President, Wholesale-Retail Operations
J. L. DAMPIER, Vice-President, Nabob Foods Operations
C. M. HUMPHRYS, C.A., Secretary-Treasurer
D. G. GIBBS, C.G.A., Controller

Directors

J. BAIRD
F. B. BROWN*
G. E. CREBER, Q.C.
J. L. DAMPIER
F. MILDRED DOUGLAS†
J. L. FARRIS, Q.C.
C. M. HUMPHRYS, C.A.
J. H. KINNE
V. F. MacLEAN*
A. H. PINKHAM, C.A.

**Members of Policy and Administrative Committee*

†J. T. FRASER, *Alternate Director and member of Policy and Administrative Committee*

Transfer Agents

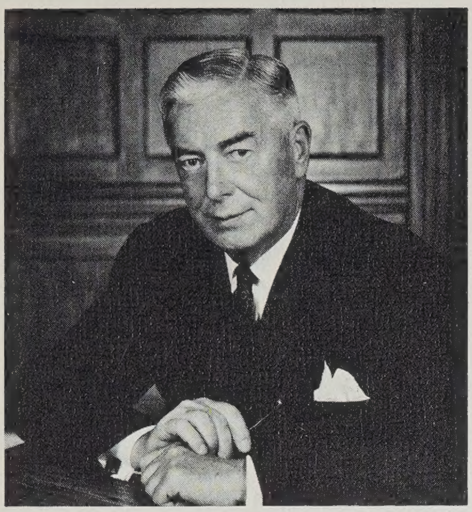
NATIONAL TRUST COMPANY, LIMITED

Registered Head Office

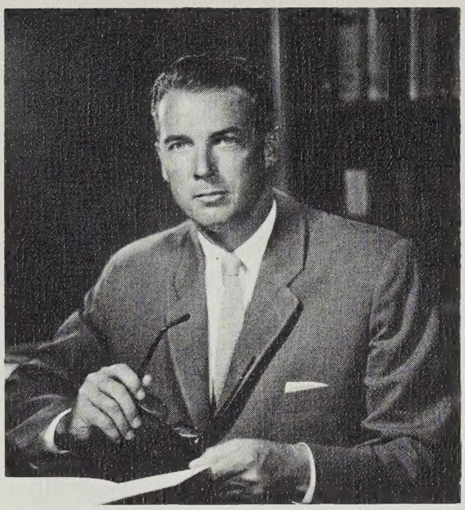
4700 KINGSWAY, BURNABY, B.C.

Annual Meeting

11 am, P.D.T., April 30, 1970
Kelly, Douglas & Company, Limited,
Board Room,
4700 Kingsway, Burnaby, B.C.



F. B. Brown, Chairman.



V. F. MacLean, President.

Report of the President

Your Company's 72nd year of operation was characterized by continued corporate growth during one of the most difficult periods Canadian companies have experienced.

This was the first year in the history of the Kelly, Douglas organization that sales exceeded $200,000,000— an achievement that reflects the rapid growth of Canada's Western Provinces and the success of your Company's programmes to capitalize on that growth.

Sales for the 52 weeks ending December 27, 1969 reached a new high level of $211,000,000, a 7.45% increase over the previous comparative period. The net profit of $1,593,000 was an 18% decrease from the comparative period owing to a 13-week strike that temporarily closed 30 of our retail stores in B.C.'s Lower Mainland. It was the Company's first full fiscal year after changing to a new consolidated accounting period. The previous fiscal year shown in the financial statements covered a period of only 39 weeks.

In 1969 we exceeded our immediate objectives and reached new milestones in achieving our long-range goals. Our aggressive programme of diversification into catering and paint products, the expansion of our Restaurant Division and the continuing development and successful marketing of new products by our Manufacturing Division contributed to our ability to withstand the economic pressures that have caused concern in board rooms from one end of the country to the other.

In Greater Vancouver, the 13-week meatcutters' strike of the major grocery chains caused a substantial set-back in the sales and profits of our Retail Division. Because of the union picket lines, Super-Valu was unable to remove perishable goods and these had to be replaced with fresh stock when stores re-opened.

Our Wholesale Division gained in sales volume by managing to meet the needs of the independent retail outlets that had to fill the gap left by the closure of the major chains. As the largest food and produce wholesaler in British Columbia, the Wholesale Division was equal to the immense task and enabled the independent stores to maintain a full service to the public. As a result, no consumer went without. There was no public outcry because no one was inconvenienced—a factor that perhaps contributed to prolonging the strike.

The repercussions of the strike are still being felt. Many retail customers acquired new shopping habits and have continued to shop at those stores that remained open. In effect, the chains have been penalized for operating large, self-contained meat departments— a consumer benefit the discount stores do not provide.

Before the strike, competition among retail food stores in Vancouver was exceedingly strong, particularly from new discount operations. The discount stores strengthened their hold on the market during the strike, and, afterwards, were in a position to increase the intensity of their price-cutting. As a result, the chains have found it virtually impossible to recoup the additional wages awarded meatcutters and retail clerks. This situation has improved slightly but the general level of retail prices is still below the pre-strike level and is totally unsatisfactory for an industry where the profit margins are already extremely slim and rising labour costs are accompanied by little or no gains in productivity.

The problem has been compounded by the tendency of government officials and consumer organizations to treat the retail food industry as the scapegoat in the battle against inflation, and by the demand of the Prices and Incomes Commission for voluntary price restraints from business in general—a demand that has little value if wage settlements continue to outstrip productivity. What many overlook is that food as a percentage of disposable income is at its lowest cost in history. It now stands at 16.7%. In the nineteen-forties it was 25%. Many products have shown remarkably small percentage price increases in recent years. Others, such as meat and coffee, are subject to the laws of supply and demand and are beyond the power of retailers to control.

In recent months the outcry against inflation has verged on hysteria. No one denies that rampant inflation, left unchecked, can damage a nation's economic stability. But what must be considered also is that Canada is still one of the world's most prosperous nations; the degree of inflation is well below that of many other industrial countries (for example, Japan which has managed to cope with the inflationary spiral by maintaining a remarkably high level of productivity); and Canada's economic growth in 1969 outstripped the rise in inflation by a healthy 5%—an achievement that is now being jeopardized by a "tight money, high interest, heavy taxation" cure that could be far more damaging than the disease. A growing number of American economists put the blame for excessive inflation on excessive interest rates in an era that has seen

the growing substitution of capital for labour. These additional interest costs are added to prices so that real profits remain relatively constant even though prices continue to climb. They argue that the way to bring down prices is to reduce interest rates and relax the tight grip on the supply of money. They also warn that the present tight money policy may provoke a financial crisis in the coming months.

Another major problem, and one that should be of great concern to every shareholder, is the serious and very sobering impact of the proposals outlined in the Government's White Paper on Taxation. These measures —even in a watered-down version— could only add to the already unfair and cumbersome burden of taxation far removed from the advantages given our neighbours in the United States. If adopted, they will result in the flight of critical risk capital and professional talent. The proposals diametrically oppose the Government's current attitude towards inflation and will tend to make individuals spenders rather than savers. The severity of the capital gains proposal is a direct intrusion on individual privacy and possessions and removes the incentives so necessary for the establishment and growth of small businesses. Any taxation proposal that discourages small businessmen and has, as its main objective, the raising of additional government revenues for financing and expanding social schemes is a proposal of questionable worth and raises the question whether people should join the growing legions of bureaucrats and others who are feeding at the public trough. Every shareholder should voice his opinion to his local Member of Parliament on this urgent matter.

Your Company's Manufacturing Division showed excellent progress for the year. Sales of tea and coffee improved in the face of lower per capita consumption—a performance that reflects the expertise of our marketing people and the outstanding reputation the Nabob name has developed for quality and value throughout Western Canada.

Efforts to increase the consumption of coffee by the industry were hampered in 1969 by a dramatic rise in the price of coffee. The first part of the year was characterized by depressed prices and supply cutbacks under the International Coffee Agreement which automatically reduces export quotas when the market is weak. However, the whole outlook was transformed in July when the Brazilian crop, the world's largest, was hit by the worst frost in the coffee industry's history. This, combined with low starting quotas for the season, caused prices to climb. They have increased by 21¢ per pound since August and it may be some time before they stabilize.

In the case of tea, there has been a strong world demand which has maintained the prices of quality teas. Cheaper grades, however, have slipped in price. Peanut prices have also moved up because of stringent government regulations on acceptable standards and also because of the lack of offerings from China, a major producer.

In the Catering Division, Cal-Van Caterers Ltd. and Canus Camp Services Ltd. were co-ordinated under a single catering management for greater efficiency. Both operations showed improved results for the year owing to greater camp strength at most of the major contracts acquired in the early part of 1969. The excellent weather conditions in British Columbia this winter in contrast to the previous winter also contributed. Although there was a curtailment in pulp mill construction and no relief in the high cost of money or other measures designed to restrain new expansion and inflation, British Columbia's economy continued at a high level of industrial activity. There is no major slowdown in sight and the prospects for the Catering Division are excellent.

The Company will soon announce a new joint company arrangement which will handle catering for exploration and construction programmes in Alaska. The new venture will offer a catering service to the 800-mile Trans-Alaska Pipeline System and affiliated projects.

Excellent improvement in sales and profits was reported for Cloverdale Paint and Chemical Ltd., now operating from new facilities at Newton, B.C. The Company offers a full line of paints, preservatives and waxes; volume has increased substantially in protective stains for forest products and in consumer and industrial waxes. Contributing to the results were the opening of several new branch stores and the acquisition of Monarch Paints Limited in Alberta.

The Restaurant Division, operated by Dickson Importing Co. Limited, completed a year of record sales and profits and maintained its share of a growing market. Operations in Alberta made an excellent contribution to results.

Meteor Meats, our newly acquired block-ready beef processing and sausage operation, completed its expansion during 1969 and the new plant is now operating satisfactorily. Unfortunately, all our retail stores have not been programmed into this operation; full utilization will be delayed until new union contract negotiations are completed.

Western Commodities produced a small increase in sales but profits were at their highest level since the start of business.

The Company's joint venture with Foremost Foods of California is nearing completion in Burnaby, B.C. Scheduled to open in June, 1970, the new $2.5 million milk processing plant will be one of the most efficient and highly automated in North America. It will produce fluid milk, ice cream, cottage cheese and novelty packs for our retail accounts.

Three new Super-Valu stores were built during the year—at Langley, Kitimat and in Denman Place, Vancouver. The Super-Valu expansion programme for 1970 will be tempered by a degree of caution and restraint as we do not contemplate entering into additional long-term commitments at current leasing rates.

On a long-range basis, we foresee further expansion for Kelly, Douglas through continued growth within our present companies and divisions as well as through selectively chosen acquisitions. In the future as in the past, this forward progress will be made possible through the efforts of our highly competent people. Because they possess the vital ability to translate the conceptual into the practical, the promising into the profitable, they constitute the greatest strength and most valuable asset of your Company.

Recently we had the pleasure of honouring 131 employees with 25 or more years of service (an aggregate of 4,379 years!). Their loyalty and inspiration is deeply appreciated.

It is also a great pleasure to thank the Directors for the interest and support they have contributed on your behalf.

VICTOR F. MacLEAN,

Victor MacLean

President.

The Manufacturing Division

The successful introduction of new products and the expansion and upgrading of existing lines, coupled with a high degree of quality control, have resulted in an excellent improvement in sales and profits for this Division.

All departments—tea, coffee, peanut butter and jam—have more than held their own against intense competition. New products, particularly the Sungold beverage mixes and Coffee Team coffee creamer, gained widespread consumer acceptance and added to sales volume. This is a gratifying accomplishment when you consider that our brands have to compete with many thousands of different products and that only about one in every six new products from all manufacturers gains a foothold in the market.

New research and testing facilities are being installed to maintain the momentum of new product development and we expect good results from this investment.

Once again our products won high marks in world competition. Squirrel Peanut Butter and Nabob Raspberry Jam each won the coveted Gold Award, Nabob Strawberry Jam a Silver Award and Nabob Seville Orange Marmalade a Bronze Award at the 1969 World Selection for Canned Food Products held in London, England.

Coffee Department

Nabob Coffee continued to hold its number one position in share of market among the major producers in Canada. The brand accounted for 50% of all national packs of ground coffee sold in Western Canada. The coffee market in Canada went through a period of considerable uncertainty over prices following the announcement that a severe frost had damaged or destroyed 70 per cent of the coffee trees in Brazil. Sharp increases in South and Central American coffee bean prices had resulted, by the end of December, in an overall price rise of 21 cents a pound. The situation was further aggravated by a wave of hedge buying by a number of large U.S. importers and processors.

Brazil, the world's largest supplier, is proceeding with a programme to plant 200 million coffee trees. Even so, the days of chronic coffee surpluses—a feature of the past 15 years—seem numbered. With some surplus coffee still on hand in most of the producing countries it was felt that an increase in quotas would help stabilize prices. However, this has not been the case.

Tea Department

The world demand for quality teas remained high in 1969 but cheaper grades fell below the prices they obtained the year before due to the impact of higher yields, new plantings and the slow growth in consumption.

The Nabob DeLuxe Orange Pekoe brand maintained its strong share of the market in Western Canada and the lower-grade brands also did very well. In the overall Canadian tea market, Nabob now ranks third in sales.

Confections and Sundries Department

The new line of Sungold drink mixes has proven a profitable addition to the Manufacturing Division's line of branded products. They compete exceptionally well on all counts: price, flavour, convenience and point-of-purchase appeal. The Nabob lines of pre-cooked puddings, desserts and jelly powders have also shown good sales growth —again pointing out the widespread appeal that convenience products have for the modern consumer.

Peanut Butter

The expanded line of Squirrel Peanut Butter products continued to increase sales in retail outlets across Western Canada. Squirrel Peanut Butter is second to none in flavour and quality and has proven highly popular with the expanding population of young people.

Prices for peanuts that meet our quality standards increased during the year. This was due to higher world demand and the lack of supply from China, one of the leading producers.

The Retail Division

The Company operates 86 independent and Company-owned Super-Valu stores under its Franchise Plan. During the year three new stores were built. One of these was located in the rapidly growing community of Langley, British Columbia, and the other two were built in Kitimat and at Denman Place, Vancouver, to replace outmoded stores in those vicinities.

Several new stores are planned for 1970 and a number of other stores will be completely renovated in keeping with our policy of providing our customers with the finest in modern shopping facilities. It would be very easy for us to downgrade facilities in the interest of economy but we do not believe that this would be a wise course of action for the future of your Company. The need and demand for "high standard" supermarkets will continue to grow—especially in a province that is expanding its population at twice the national rate. Economists believe that inflation will become a permanent fixture of the economy and that disposable income may well double within the next 30 years.

Our stores of the future will be considerably larger on the average than the stores of today. They will continue to increase the selling area's share of total floor space, thanks largely to the reduction in space needed for backroom storage of groceries, meat and produce. Plans are already well under way to see that much of the processing of

important perishables is performed outside the stores in a central location. Another area we are investigating is the potential of the fast food business. We have already moved into this field through the sale of ready-to-eat foods through our in-store delicatessens, particularly in high-density, high-rise apartment areas. What must be remembered is that a family that eats out at a drive-in restaurant is a family that needs to buy less food at the supermarket. This is business we cannot afford to lose especially when you consider that fast food outlets account for 20 percent of away-from-home eating—a national average of about $16 per person per year.

Sales and profits for Super-Valu declined in 1969 due to a 13-week strike of meatcutters. When stores re-opened a large volume of perishables and such commodities as coffee, flour, potato chips and rice had to be discarded and replaced with new stock. We anticipate a return to the strong upward trend in sales during 1970.

We are pleased with the performance of the Kim Drug units which offer low-cost prescription service and sell a complete line of drug store merchandise. We will, in the foreseeable future, be expanding the drug operation into larger free-standing units compatible with new Super-Valu locations. At that time a change of name is anticipated.

Another move that shows great promise is the construction of a $2.5 million milk processing plant in Lake City Industrial Park, Burnaby, B.C. The new plant is scheduled for completion in mid-1970 and will operate under the name of Foremost Foods Ltd. It is a joint venture of Kelly, Douglas & Company, Limited, which owns 60 percent, and Foremost Foods Company, a Division of Foremost-McKesson,Inc., which owns 40 percent. The new plant will process fluid milk, cottage cheese, ice cream and novelty packs for Super-Valu stores in the Greater Vancouver and Victoria area. There will be no home deliveries.

The Wholesale Division

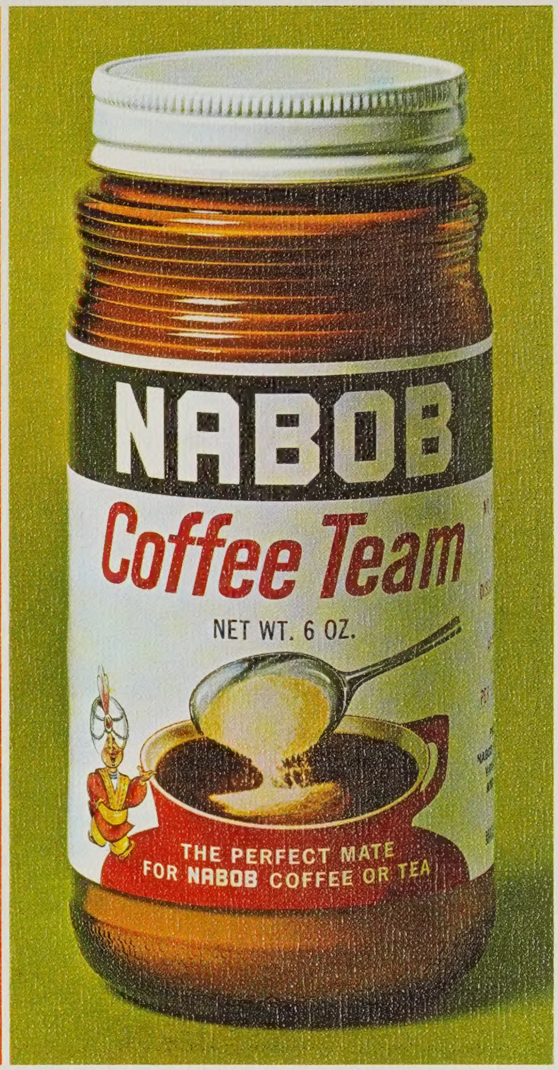
The 1969 performance of the Wholesale Division was excellent. Sales for the 52 weeks improved considerably over the previous year. The loss of business to the Super-Valu chain of stores during the 13-week meatcutters' strike was made up for by the increase of deliveries to the independent outlets that stayed open during that period. As British Columbia's largest food and produce wholesaler, the Division was able to cope with the tremendous flow of orders and played an important part in meeting the needs of consumers.

Negotiations are still proceeding to expand and centralize the Company's meat cutting operations in an effort to produce uniform quality, provide better inventory management and improve utilization. It is hoped that these negotiations will be completed in the forthcoming year so that the benefits of this operation can be applied to all our retail stores.

The Catering Division

In the industrial catering market, the operations of both Canus and Cal-Van showed improved results. Camp strengths remained at a higher than usual level due to mild winter conditions. The hydro electric development on the Columbia River at Mica Creek, the Kaiser Resources giant coal development near Fernie, B.C., the Roberts Bank Superport near Vancouver and a number of large mining projects contributed to the high level of business activity.

A new venture will be announced shortly. It will offer a catering service to the Trans-Alaska Pipeline System which is planning to build a pipeline from Prudhoe Bay, the site of one of the world's great oil discoveries, 800 miles south to Valdez, across the frozen tundra.



Our new line of Nabob Sungold products—a variety of fruit flavour crystals—is becoming an important factor in the sales volume of the Manufacturing Division. The steady growth of convenient fruit drinks reflects the changing patterns of today's family living.

New Nabob Coffee Team is a non-dairy cream product that is always handy, easy to store, requires no refrigeration. It's the ideal companion for Nabob Coffee or Nabob Tea.

Kelly, Douglas &

(Incorporated under the laws of Britis

Consolidated balance s

ASSETS

	December 27, 1969	December 28, 1968
CURRENT:		
Accounts receivable	$ 8,084,089	$ 8,386,543
Inventories (note 2)	23,709,533	20,106,048
Prepaid expenses	467,492	548,576
Total current assets	32,261,114	29,041,167
PROPERTIES HELD FOR RESALE, at cost (notes 1 and 3)	4,140,758	2,922,339
FIXED, AT COST:		
Buildings, machinery and equipment	28,942,664	25,985,342
Less accumulated depreciation (note 4)	14,651,114	13,114,348
	14,291,550	12,870,994
Land	1,280,617	1,052,687
	15,572,167	13,923,681
OTHER:		
Deferred accounts receivable	825,779	896,161
Sundry investments	100,206	96,809
Unamortized debenture discount	58,504	66,005
Excess of cost of shares in subsidiaries over their underlying net book value at dates of acquisition (net) and purchased goodwill	915,562	917,860
	1,900,051	1,976,835
	$53,874,090	$47,864,022

ON BEHALF OF THE BOARD:

Victor F. MacLean, *Director.*

C. M. Humphrys, *Director.*

ompany, Limited and subsidiary companies

umbia)

et December 27, 1969

LIABILITIES

	December 27, 1969	December 28, 1968
CURRENT:		
Bank indebtedness (note 5)	$ 645,585	$ 23,444
Notes payable and bankers acceptances	5,007,000	4,500,000
Accounts payable and accrued charges	15,654,479	14,103,964
Current portion of long-term debt (note 5)	733,416	459,727
Income taxes payable	798,860	1,087,623
Total current liabilities	22,839,340	20,174,758
LONG-TERM DEBT (note 5)	7,662,446	5,330,903
DEFERRED INCOME TAXES	718,433	1,021,710
MINORITY INTEREST IN SUBSIDIARY COMPANIES	28,526	43,137
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (note 6):		
Authorized —		
20,000 4½% cumulative redeemable preference shares, par value of $100, redeemable at par		
2,000,000 cumulative participating Class "A" shares without par value		
3,000,000 Class "B" shares without par value		
Issued —		
1,050,107 Class "A" shares	2,645,389	2,645,389
1,618,125 Class "B" shares	1,677,187	1,677,187
	4,322,576	4,322,576
RETAINED EARNINGS (note 7)	18,302,769	16,970,938
	22,625,345	21,293,514
	$53,874,090	$47,864,022

(See accompanying notes to the financial statements)

Consolidated statement of profit and loss

for the fiscal year ended December 27, 1969

	52 weeks ended December 27, 1969	39 weeks ended December 28, 1968
Sales	$211,659,919	$150,828,801
Profit from operations before the following	$ 8,277,568	$ 6,521,935
Deduct:		
Depreciation (note 4)	2,003,330	1,348,382
Payments on long-term leases (note 8)	2,098,000	1,511,342
Interest — long-term debt	530,013	128,195
— other	577,607	402,997
	5,208,950	3,390,916
Profit before income taxes	3,068,618	3,131,019
Income taxes	1,503,322	1,618,252
Net profit before minority interest	1,565,296	1,512,767
Minority interest in (profits) losses of subsidiary companies	28,611	(9,453)
Net profit	$ 1,593,907	$ 1,503,314

Consolidated statement of retained earnings

for the fiscal year ended December 27, 1969

	52 weeks ended December 27, 1969	39 weeks ended December 28, 1968
Retained earnings beginning of the fiscal year (note 7)	$ 16,970,938	$ 15,664,520
Net profit	1,593,907	1,503,314
	18,564,845	17,167,834
Dividends on Class "A" shares (note 6)	262,076	196,896
Retained earnings end of the fiscal year	$ 18,302,769	$ 16,970,938

(See accompanying notes to the financial statements)

Notes to consolidated financial statements

1. ACCOUNTING PRESENTATION

In 1969 the company adopted the policy of classifying properties held for resale as a non-current asset; in 1968 and prior years such properties were included in current assets. The comparative figures for 1968, including those in the Statement of Source and Application of Funds, have been restated to conform with the 1969 basis. Certain other minor changes have been made in the 1968 comparative statements in order to conform the presentation with that followed in 1969.

2. INVENTORIES

	1969	1968
Inventories consist of:		
Finished goods, valued at the lower of cost and net realizable value	$19,778,222	$15,910,695
Raw materials, valued at the lower of cost and replacement cost	3,931,311	4,195,353
	$23,709,533	$20,106,048

3. PROPERTIES HELD FOR RESALE

It is the company's policy to assemble properties for future expansion. When the development of any location is completed, the property is sold under a lease-back arrangement.

4. DEPRECIATION

Depreciation is provided substantially on a straight-line basis over the estimated useful lives of assets at the following rates:

Buildings	5% and 10%
Machinery and equipment	10% and 20%
Automotive	20%
Leasehold improvements	over life of lease

Maximum capital cost allowance is claimed for income tax purposes and appropriate provision is made for deferred income taxes.

5. LONG-TERM DEBT

	1969	1968
Long-term debt consists of:		
6% sinking fund debentures, Series "A" maturing November 1, 1977; annual sinking fund instalment $100,000	$ 1,800,000	$ 1,900,000
Bank loans		
7¼% note payable, due March 30, 1970	—	3,000,000
Demand note payable bearing interest at prime rate plus 1% with scheduled quarterly repayments of $125,000 commencing March 31, 1970	3,000,000	—
Demand note payable bearing interest at prime rate plus ¾% with scheduled repayment at December 31, 1970	1,000,000	—
3% notes payable, maturing January 1, 1971 (U.S. $1,689,650) (bankers acceptances)	1,816,373	—
Other	843,489	951,630
	8,459,862	5,851,630
Less:		
Debentures purchased for sinking fund purposes	64,000	61,000
Instalments due within one year	733,416	459,727
	797,416	520,727
	$ 7,662,446	$ 5,330,903

Instalments on long-term debt due in each of the next five fiscal years are:

1970—$ 733,416	1973—$ 675,581
1971— 3,538,366	1974— 670,580
1972— 679,030	

The greater part of consolidated accounts receivable and inventories is pledged as collateral security against bank indebtedness.

6. SHARE CAPITAL

The company's Class "A" shares entitle the holders thereof to fixed, cumulative, preferential cash dividends of 25¢ per share per annum payable quarterly. Any further dividends on the company's common shares shall be paid firstly to the Class "B" shareholders to the extent of 25¢ per share per annum plus the amount (if any) by which 25¢ exceeds their dividends in the preceding year, and thereafter in equal amounts per share to the Class "A" and Class "B" shareholders.

Included in sundry investments are 41,133 Class "B" shares in the parent company held by a subsidiary company at a cost of $41,133.

Notes to consolidated financial statements (con't)

7. RETAINED EARNINGS

	1969	1968
Appropriated as "capital surplus" on redemption of preference shares	$ 774,000	$ 774,000
Unappropriated	17,528,769	16,196,938
	$18,302,769	$16,970,938

8. LONG-TERM LEASES

In addition to the buildings owned and occupied by the companies, three manufacturing plants, thirteen distribution centres and fifty-two retail stores are occupied by them under lease agreements, the majority on a long-term basis. Also, the parent company has entered into long-term leases on fifty-one stores which are sub-leased to independent operators and other lessees.

As at December 27, 1969 the rentals under lease agreements are payable as follows:

For the five years ending December 31, 1974	$11,644,475
For the five years ending December 31, 1979	11,007,077
For the five years ending December 31, 1984	9,269,471
For the five years ending December 31, 1989	7,754,105
For the five years ending December 31, 1994	3,539,983
Subsequent to December 31, 1994	625,836
	$43,840,947

9. EXECUTIVE REMUNERATION

During the fifty-two weeks ended December 27, 1969 aggregate remuneration of directors, officers and senior employees amounted to $251,237 ($135,500 for the thirty-nine weeks ended December 28, 1968).

10. COMMITMENTS AND CONTINGENT LIABILITIES

Contractual commitments for capital additions amounted to $1,100,000 and contingent liabilities consisted of guarantees in the amount of $300,000 as at December 27, 1969.

Consolidated statement of source and application of funds
for the fiscal year ended December 27, 1969

	52 weeks ended December 27, 1969	39 weeks ended December 28, 1968
Source:		
Operations—		
Net profit	$ 1,593,907	$1,503,314
Expense (income) not resulting in an outlay (receipt) of funds:		
Depreciation	2,003,330	1,348,382
Deferred income taxes	(303,277)	62,602
Amortization of debenture discount	7,501	5,626
Minority interest in profits (losses) of subsidiary companies	(28,611)	9,453
Net profit on disposal of fixed assets	(12,975)	(33,707)
	3,259,875	2,895,670
Proceeds on disposal of fixed assets	215,492	448,362
Proceeds of properties sold for lease-back	1,241,193	557,850
Proceeds on issue of long-term debt	6,128,959	3,774,181
Repayment of special refundable tax	—	74,606
Decrease in deferred accounts receivable	70,382	184,904
Capital contributions attributable to minority interest	14,000	—
	10,929,901	7,935,573
Application:		
Retirement of long-term debt	3,797,416	520,727
Additions to properties held for resale	2,459,612	1,757,830
Additions to fixed assets	3,854,333	3,738,138
Purchase of sundry investments	3,397	—
Excess of cost of shares acquired during the period over net book value thereof and purchased goodwill	(2,298)	194,968
Dividends on Class "A" shares	262,076	196,896
	10,374,536	6,408,559
Increase in working capital	555,365	1,527,014
Working capital beginning of fiscal year	8,866,409	7,339,395
Working capital end of fiscal year	$ 9,421,774	$8,866,409

(See accompanying notes to the financial statements)

Auditors' report

To the Shareholders of
Kelly, Douglas & Company, Limited:

We have examined the consolidated balance sheet of Kelly, Douglas & Company, Limited and its subsidiary companies as at December 27, 1969 and the consolidated statements of profit and loss, retained earnings and source and application of funds for the fiscal year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 27, 1969 and the results of their operations and the source and application of their funds for the fiscal year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding fiscal year after giving retroactive effect to the changes in accounting presentation (which we approve) referred to in note 1 to the financial statements.

Vancouver, Canada.
February 11, 1970.

CLARKSON GORDON & CO.,
Chartered Accountants.

Kelly, Douglas & Company, Limited and subsidiary companies

10 year historical summary

FINANCIAL RATIO AND VALUES (thousands of dollars)

Fiscal Year	Current Ratio	Sales to Av. Inventory	A/C Receive. (Av.)—Days	Working Capital	Net Property & Equipment	Total Assets	Shareholders' Investment Total	Shareholders' Investment $ Per Share	Shareholders' Investment Increase
1969 (full year)	1.41-1	9.7	14	$9,422	$15,572	$53,874	$22,625	$8.48	6.3%
1968 (39 weeks)	1.44-1	10.5	14	8,866	13,923	47,864	21,293	7.98	6.5
1968 (43 weeks)	1.40-1	10.8	14	7,339	11,949	41,216	19,987	7.49	7.8
1967 (full year)	1.31-1	11.2	14	6,537	11,750	39,639	18,542	6.95	9.3
1966 " "	1.47-1	11.2	14	6,964	10,319	35,228	16,971	6.36	6.7
1965 " "	1.67-1	10.0	13	7,441	8,296	28,889	14,770	5.96	7.6
1964 " "	1.71-1	10.6	12	7,276	7,786	27,464	13,715	5.54	6.3
1963 " "	1.48-1	10.1	13	5,636	8,609	28,230	12,856	5.21	5.9
1962 " "	1.75-1	10.1	13	6,485	7,247	24,546	12,167	4.92	6.0
1961 " "	1.77-1	9.8	11	6,386	7,089	23,776	11,456	4.64	7.4

OPERATING (thousands of dollars)

Fiscal Year	Net Sales	Operating Income	*Rental Payments	Debenture Interest	Depreciation Provided	Income Taxes	Net Income	Shareholders' Cash Flow
1969 (full year)	$211,659	$7,300	$2,098	$111	$2,003	$1,503	$1,593	$3,259
1968 (39 weeks)	150,828	6,063	1,511	83	1,348	1,618	1,503	2,895
1968 (43 weeks)	153,965	5,790	1,577	97	1,433	1,325	1,358	2,704
1967 (full year)	173,522	7,202	1,767	126	1,605	1,871	1,833	3,749
1966 " "	154,424	6,148	1,552	130	1,288	1,630	1,548	3,161
1965 " "	130,418	5,205	1,392	138	1,061	1,348	1,266	2,414
1964 " "	119,281	4,624	1,308	145	1,013	1,085	1,073	2,128
1963 " "	113,049	3,982	1,135	150	963	830	904	1,972
1962 " "	106,129	4,104	1,129	159	874	904	1,038	2,088
1961 " "	106,238	4,089	1,036	171	822	1,020	1,040	1,891

*Including Stores Subleased to Independent Operators.

OPERATING RATIOS AND VALUES

Fiscal Year	Operating Margin	*Rent & Debenture Interest Coverage	Net Margin	Return on Average Equity	Earnings Per Share	Increase	Cash Flow Per Share	Dividends Per Class "A" Share
1969 (full year)	3.45%	3.30	.75%	7.25%	$.60	7.1%	$1.22	$.25
1968 (39 weeks)	4.02	3.80	1.00	9.71	.56	9.8	1.08	.19
1968 (43 weeks)	3.76	3.46	.88	8.52	.51	(10.7)	1.01	.19
1967 (full year)	4.15	3.80	1.05	10.32	.69	18.4	1.41	.25
1966 " "	3.98	3.65	1.00	9.75	.58	13.7	1.18	.25
1965 " "	3.99	3.40	.97	8.89	.51	18.6	.90	.25
1964 " "	3.88	3.18	.90	8.08	.43	11.9	.80	.25
1963 " "	3.52	3.10	.80	7.23	.36	(14.3)	.74	.25
1962 " "	3.87	3.18	.98	8.79	.42	—	.78	.25
1961 " "	3.85	3.38	.98	9.43	.42	2.4	.71	.25

*Including Stores Subleased to Independent Operators.

25 years of service

Every year, Kelly, Douglas hosts those men and women who celebrate twenty-five years with our company. In February of this year, 131 employees with twenty-five years service or more (an aggregate of 4,379 years) gathered at a special dinner.

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